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Dairy and Products

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Report Highlights:

Fluid milk production in 2005/06 is forecast to decline one percent to 10.25 MMT as drier-than-average weather conditions have affected production in the second half of the year.

Cheese production and exports for 2005/06 are forecast to decline significantly from the previous year due to: the slight fall in fluid milk production; a reduction in world cheese prices, particularly in the cheddar variety; and a sharp increase in the prices received for butter oil diverting fluid milk away from cheese production.

Butter production in 2005/06 is forecast to increase slightly due to a 44 percent increase in butter oil production that more than offset the decline in solid butter production.

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SECTION ONE: SITUATION AND OUTLOOK**General**

The Australian dairy industry has entered more difficult times in the second half of 2005/06. Drier-than-average conditions, an appreciation of the Australian dollar and a fall in world prices has lowered both production and profitability. This follows a previously buoyant first half that saw the industry recover from the effects of long running drought and benefiting from comparatively higher world prices.

At time of this report, much of the Australia's dairy production areas in southeastern Australia have begun experiencing drier-than-average conditions, despite intense cyclone activity in northern Australia. Southern NSW and northern Victoria remain the driest regions, which account for the majority of Australia's dairy production.

The Australian dairy industry essentially relies on pasture production to provide the majority of cattle feed, although intensive feeding continues to grow in importance. Drier-than-average conditions in the second half of 2005/06 have greatly reduced pasture availability and quality, increasing reliance upon supplementary feeding.

Irrigation water storage dams in catchments adjacent to dairy regions have also suffered from drier conditions lowering the levels of water available for irrigation more recently. This slight fall follows a period of steady improvement since the breaking of the drought in 2004/05.

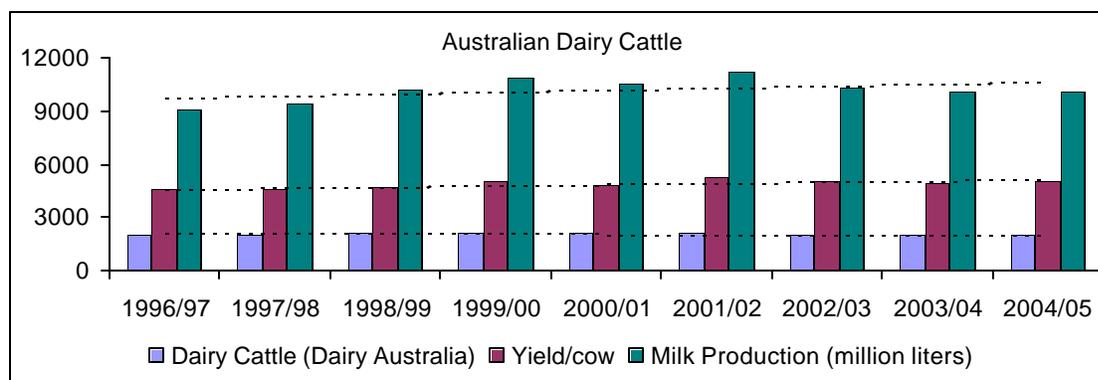
Australia experienced record winter cereal production in 2005/06 and has also experienced relatively good summer crop production conditions. Supplementary feeding is unlikely to be constrained in the remainder of 2005/06 and into 2006/07, although profit margins are likely to be affected by ongoing dry weather conditions.

Milk**Production**

Fluid milk production in 2005/06 is forecast to decline about one percent to 10.25 MMT, down from 10.43 MMT for the previous year. This level is consistent with industry year-to-date data showing a similar decline. A production level of 10.25 MMT would be equivalent to 9.95 billion liters (using a conversion factor of 1.03). This revised forecast remains well below the earlier forecast of 10.8 MMT (AS5036).

Hotter and drier conditions in the beginning of the second half of 2005/06 resulted in production falling slightly under last year's levels. Dry conditions are currently persisting into winter and are forcing some areas back into drought conditions with below average conditions likely affect production into the beginning of 2006/07.

Fluid milk production for 2004/05 has remained largely unchanged.



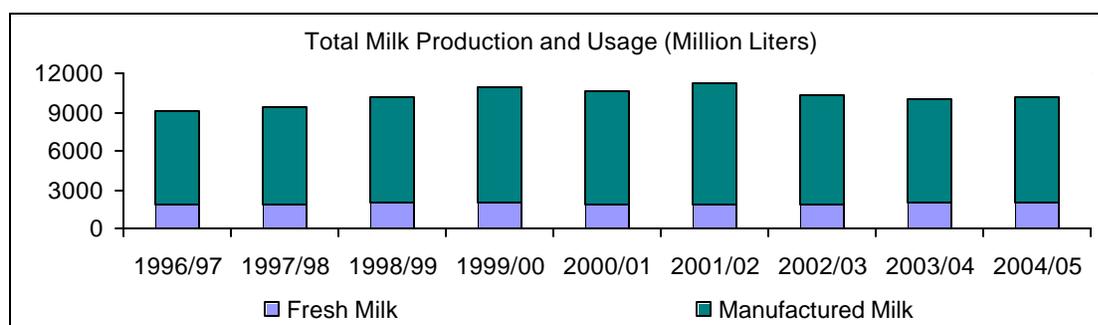
Source: ABARE data (July-June)

Exports

Fluid milk exports for 2005/06 are forecast are to increase to 88 TMT. Industry sources report that most of Australia’s fluid milk exports are in the form of UHT or long life milk products. Fluid milk exports are expected to continue to grow at modest levels for the foreseeable future, although they are expected to remain at low levels relative to fluid milk production.

Consumption

Fluid milk consumption for 2005/06 is forecast at 2,116 TMT, up slightly on the estimate of 2,083 TMT for the previous year. Post expects fluid milk consumption to grow only modestly for the foreseeable future. Historical data shows fluid milk (fresh milk) consumption remaining largely unchanged over the past decade.



Source: Dairy Australia

National Livestock Identification Scheme

The National Livestock Identification Scheme (NLIS) for cattle, both beef and dairy is mandatory in Australia, with the exception of the states of Queensland and the Northern Territory, which will not achieve full compliance until 2007.

Under NLIS, it is mandatory for “whole of life” Radio Frequency Identification Devices (RFID’s) to be fitted to cattle prior to leaving the property of birth. All livestock movements over the lifetime of the animal are recorded electronically at central points such as livestock auctions, feedlots and slaughter plants.

NLIS is expected to deliver much improved trace-back capacity to assist with issues such as disease and chemical residue control, and it is expected that the pre-existing "tail tag" identification system will be phased out on time in 2006.

Dairy Deregulation in Australia

Industry observers continue to assess the impact of the restructuring of the dairy sector in Australia. In 2000, a dairy structural adjustment payment scheme was implemented, consisting of A\$1.63 billion to be paid to eligible farmers over 8 years, in addition, a A\$45 million dairy exit payment scheme (for 2 years) and a A\$45 million dairy regional adjustment program (for 3 years). In 2001, a support package of A\$160 million was added. Under the program, farmers are paid on the basis of their historical production (based on 1998-99 deliveries) at the rate of A\$ 0.4623 for market milk and A\$.0896 for manufacturing milk. Payments are to be made over eight years. The package was partly funded by a A\$0.11 per liter levy on drinking milk sales that will run until 2010.

Dairy Australia reports as a result of deregulation in 2000, there has been an accelerated rate of farm rationalization above the long term average, income effects have varied by region, and the impact has been blurred by seasonal and market conditions since 2002, particularly the long-term drought.

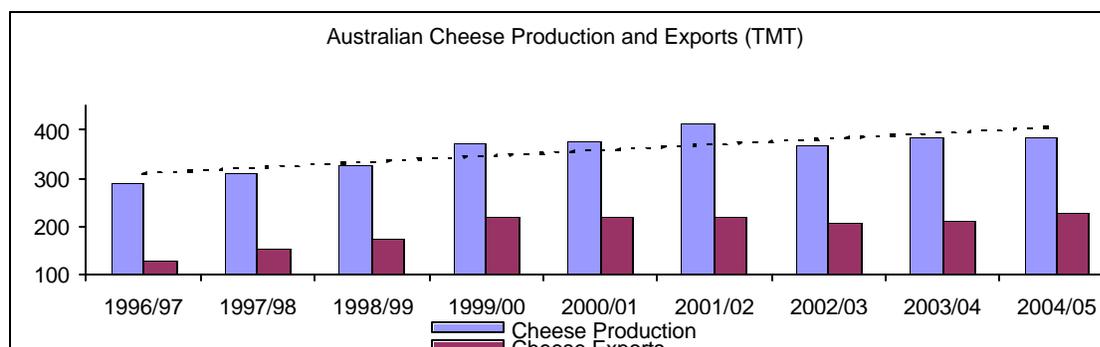
Cheese

Production

Australian cheese production for 2005/06 is forecast at 341 TMT, down significantly on the estimate for the previous year. Industry year-to-date data for the first nine months of 2005/06 indicates a sharp decline in cheese production for the beginning of the second half of 2005/06. According to historical ABARE data, should this forecast be achieved this would represent the first decline in annual cheese production since 2002/03 when severe drought saw cheese production fall for the first time in nearly a decade.

Industry source suggest the recent fall in cheese production is due to: the slight fall in fluid milk production due to drier-than-average weather conditions; a fall in world cheese prices, particularly in the cheddar variety; and a sharp increase in the prices received for butter oil diverting fluid milk away from cheese production. Industry sources have also noted that continuing restructure of the Australian dairy industry has resulted in the closure of at least one cheese factory, although Post expects this capacity to be countered over time by increased output in remaining plants.

This forecast of lower cheese production contradicts the long-term trend of steadily directing more dairy output toward higher value cheese production and away from lower value commodities such as butter.



Sources: ABARE data (July-June)

Exports

Total cheese exports for 2005/06 are forecast at 195 TMT, down sharply on the estimate for the previous year. This reduction is largely in-line with industry year-to-date data showing a 14 percent decline in total cheese exports. Cheddar exports are down over 20 percent while all other cheeses are down just under nine percent. This drop in cheese exports, if achieved, would contradict the long-term trend of steady growth in cheese exports according to historical ABARE data.

Consumption

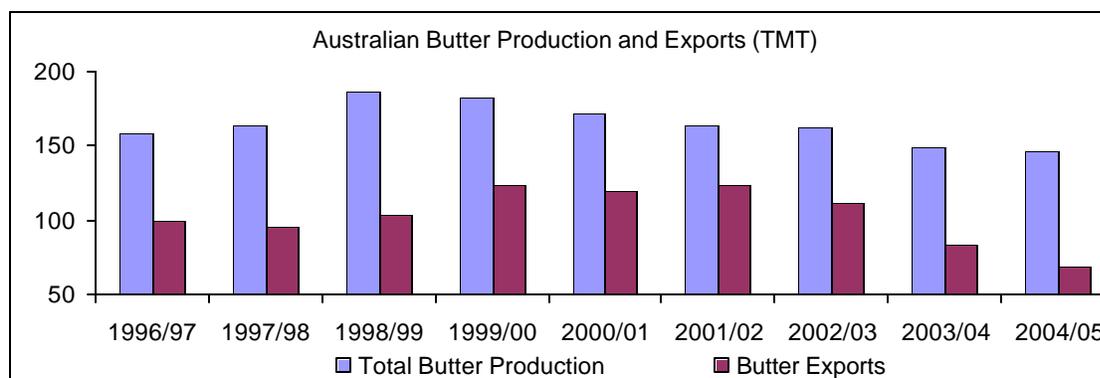
Domestic consumption in 2005/06 is forecast at 210 TMT, down on the estimate for the previous year. Official consumption data is not available for cheese. Post considers domestic demand for cheese to be relatively strong, although reduced production will likely see consumption fall in 2005/06.

Butter

Production

Australian butter production in 2005/06 is forecast to increase slightly to 132 TMT. The increase is the result of a 44 percent increase in butter oil production that more than offset the 18.7 percent decline in solid butter production. Post includes the production of butter oil in total butter production and uses a conversion factor of 1.242 to convert butter oil to butter equivalent.

Butter oil production is currently accounting for about 43 percent of total butter equivalent production, up from 29 percent for the same period in the previous year. Industry sources suggest strong export opportunities in the butter oil export markets have led to greatly increased production and have speculated that this may be related to higher energy oil prices generally, which have increased prices of food oils.



Source: ABARE data (July-June)

Exports

Total butter exports for 2005/06 are forecast at 75 TMT, up from the revised estimate for the previous year. Butter oil export volumes have surged on a year-to-date basis, up 37 percent on the same period for the previous year. Strong export demand has reportedly driven this increase with industry sources relating this trend to higher world oil prices. Exports of solid butter have fallen 18 percent in line with the decline in solid butter production over the same period.

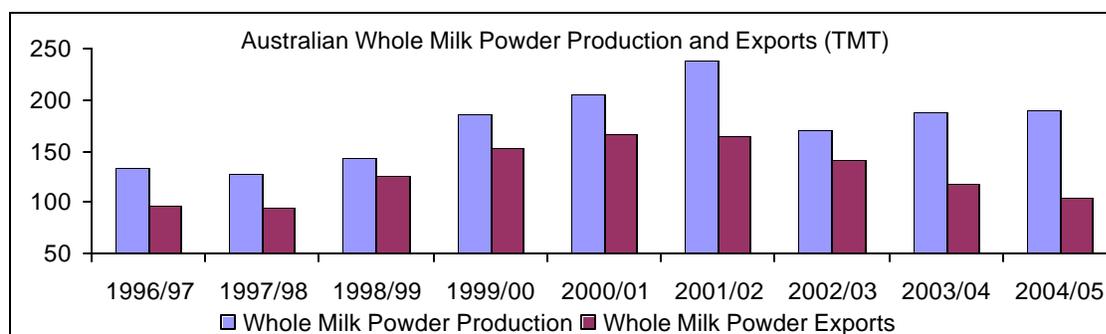
Consumption

Butter consumption in 2005/06 is forecast at 66 TMT, up slightly on the previous year. Official consumption statistics are unavailable for butter. Post expects butter consumption to continue growing incrementally for the foreseeable future.

Whole Milk Powder

Production

Australian whole milk powder production in 2005/06 is forecast at 180 TMT, down from the revised estimate of 189 TMT for the previous year. Industry year-to-date production data indicate anticipated declines have abated in the second half of 2005/06. Slightly lower supplies of total fluid milk, due to dry conditions, and the diversion of fluid milk toward the manufacture of butter oil will likely to see overall production fall in 2005/06.



Source: ABARE data

Exports

Total whole milk powder exports are forecast at 170 TMT, up slightly from last year's level, and in line with industry year-to-date data. Reduced production of cheese has influenced the slight increase.

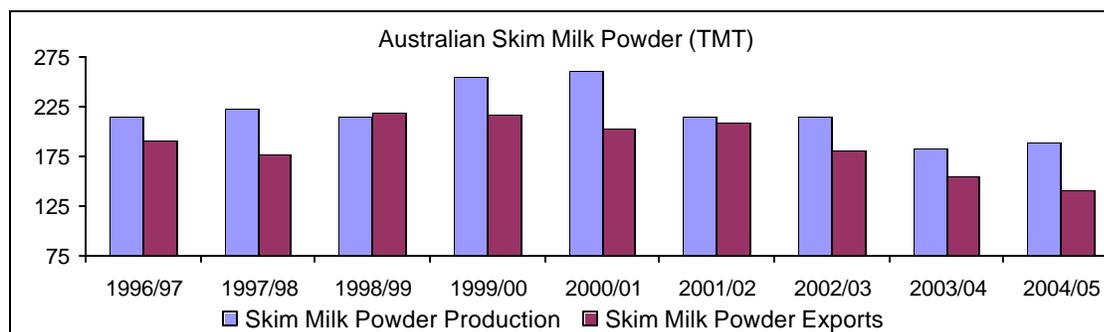
Consumption

Consumption of whole milk powder for 2005/06 is forecast at 27 TMT, up slightly on the previous year. Official consumption data for whole milk powder is unavailable, although historic ABARE data shows the gap between production and exports (domestic disappearance) to be increasing. Anecdotal evidence suggests strong growth in the domestic food-manufacturing sector would likely be demanding higher levels of milk powders for food manufacturing.

Skim Milk Powder

Production

Total production of skim milk powder (SMP) for 2005/06 is forecast at 216 TMT, up on the 206 TMT estimated for the previous year. This forecast is consistent with industry year-to-date data showing a five percent increase in production. Industry sources suggest that an increase in SMP production is consistent with an increase in butter oil production also shown in the same data.



Source: ABARE data (July-June)

Exports

SMP exports for 2004/05 are forecast at 204 TMT, up sharply from the 174 TMT estimated for the previous year. Industry year-to-date shows exports to be up about 35.5 percent although export values for the same period are up by only 17 percent. Post believed that the increased production of butter oil is causing increased production of SMP, which is in turn being discounted for export rather than placed into stocks.

Consumption

Total SMP consumption for CY 2005/06 is forecast at 20 TMT, unchanged from the estimate for the previous year. Official consumption data is not available for SMP although Post does not anticipate significant changes from year to year.

SECTION TWO: STATISTICAL TABLES

PSD Table							
Dairy, Milk, Fluid							
	2004	Revised	2005	Estimate	2006	Forecast	<i>UOM</i>
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2003		07/2004		07/2005	<i>MM/YYYY</i>
Cows In Milk	2036	2036	2041	2041	2045	2045	<i>(1000 HD)</i>
Cows Milk Production	10377	10377	10428	10429	10750	10250	<i>(1000 MT)</i>
Other Milk Production	0	0	0	0	0	0	<i>(1000 MT)</i>
TOTAL Production	10377	10377	10428	10429	10750	10250	<i>(1000 MT)</i>
Intra EC Imports	0	0	0	0	0	0	<i>(1000 MT)</i>
Total Imports	2	2	2	3	2	3	<i>(1000 MT)</i>
TOTAL Imports	2	2	2	3	2	3	<i>(1000 MT)</i>
TOTAL SUPPLY	10379	10379	10430	10432	10752	10253	<i>(1000 MT)</i>
Intra EC Exports	0	0	0	0	0	0	<i>(1000 MT)</i>
Total Exports	86	86	87	84	89	88	<i>(1000 MT)</i>
TOTAL Exports	86	86	87	84	89	88	<i>(1000 MT)</i>
Fluid Use Dom. Consum.	2020	2020	2083	2083	2100	2116	<i>(1000 MT)</i>
Factory Use Consum.	8273	8273	8260	8265	8563	8049	<i>(1000 MT)</i>
Feed Use Dom. Consum.	0	0	0	0	0	0	<i>(1000 MT)</i>
TOTAL Dom. Consumption	10293	10293	10343	10348	10663	10165	<i>(1000 MT)</i>
TOTAL DISTRIBUTION	10379	10379	10430	10432	10752	10253	<i>(1000 MT)</i>
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	<i>(1000 MT)</i>
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	<i>(1000 MT)</i>

PSD Table							
Dairy, Cheese							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2003		07/2004		07/2005	<i>MM/YYYY</i>
Beginning Stocks	55	55	51	51	26	26	<i>(1000 MT)</i>
Production	389	389	376	375	395	341	<i>(1000 MT)</i>
Intra EC Imports	0	0	0	0	0	0	<i>(1000 MT)</i>
Total Imports	49	49	51	50	52	52	<i>(1000 MT)</i>
TOTAL Imports	49	49	51	50	52	52	<i>(1000 MT)</i>
TOTAL SUPPLY	493	493	478	476	473	419	<i>(1000 MT)</i>
Intra EC Exports	0	0	0	0	0	0	<i>(1000 MT)</i>
Total Exports	212	212	227	227	228	195	<i>(1000 MT)</i>
TOTAL Exports	212	212	227	227	228	195	<i>(1000 MT)</i>
Human Dom. Consumption	230	230	225	223	225	210	<i>(1000 MT)</i>
Other Use, Losses	0	0	0	0	0	0	<i>(1000 MT)</i>
Total Dom. Consumption	230	230	225	223	225	210	<i>(1000 MT)</i>
TOTAL Use	442	442	452	450	453	405	<i>(1000 MT)</i>
Ending Stocks	51	51	26	26	20	14	<i>(1000 MT)</i>
TOTAL DISTRIBUTION	493	493	478	476	473	419	<i>(1000 MT)</i>
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	<i>(1000 MT)</i>
Calendar Yr. Exp. to U.S.	10	10	12	12	12	12	<i>(1000 MT)</i>

PSD Table							
Dairy, Butter							
	2004	Revised	2005	Estimate	2006	Forecast	<i>UOM</i>
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2003		07/2004		07/2005	<i>MM/YYYY</i>
Beginning Stocks	2	2	8	8	2	14	<i>(1000 MT)</i>
Production	132	132	131	131	130	132	<i>(1000 MT)</i>
Intra EC Imports	0	0	0	0	0	0	<i>(1000 MT)</i>
Total Imports	9	9	10	10	11	11	<i>(1000 MT)</i>
TOTAL Imports	9	9	10	10	11	11	<i>(1000 MT)</i>
TOTAL SUPPLY	143	143	149	149	143	157	<i>(1000 MT)</i>
Intra EC Exports	0	0	0	0	0	0	<i>(1000 MT)</i>
Total Exports	75	75	88	70	83	75	<i>(1000 MT)</i>
TOTAL Exports	75	75	88	70	83	75	<i>(1000 MT)</i>
Domestic Consumption	60	60	59	65	58	66	<i>(1000 MT)</i>
TOTAL Use	135	135	147	135	141	141	<i>(1000 MT)</i>
Ending Stocks	8	8	2	14	2	16	<i>(1000 MT)</i>
TOTAL DISTRIBUTION	143	143	149	149	143	157	<i>(1000 MT)</i>
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	<i>(1000 MT)</i>
Calendar Yr. Exp. to U.S.	2	2	2	2	2	2	<i>(1000 MT)</i>

PSD Table							
Dairy, Dry Whole Milk Powder							
	2004	Revised	2005	Estimate	2006	Forecast	<i>UOM</i>
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2003		07/2004		07/2005	<i>MM/YYYY</i>
Beginning Stocks	25	25	28	28	44	46	<i>(1000 MT)</i>
Production	187	187	187	189	195	180	<i>(1000 MT)</i>
Intra EC Imports	0	0	0	0	0	0	<i>(1000 MT)</i>
Total Imports	12	12	15	15	15	15	<i>(1000 MT)</i>
TOTAL Imports	12	12	15	15	15	15	<i>(1000 MT)</i>
TOTAL SUPPLY	224	224	230	232	254	241	<i>(1000 MT)</i>
Intra EC Exports	0	0	0	0	0	0	<i>(1000 MT)</i>
Total Exports	173	173	161	161	185	170	<i>(1000 MT)</i>
TOTAL Exports	173	173	161	161	185	170	<i>(1000 MT)</i>
Human Dom. Consumption	23	23	25	25	27	27	<i>(1000 MT)</i>
Other Use, Losses	0	0	0	0	0	0	<i>(1000 MT)</i>
Total Dom. Consumption	23	23	25	25	27	27	<i>(1000 MT)</i>
TOTAL Use	196	196	186	186	212	197	<i>(1000 MT)</i>
Ending Stocks	28	28	44	46	42	44	<i>(1000 MT)</i>
TOTAL DISTRIBUTION	224	224	230	232	254	241	<i>(1000 MT)</i>
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	<i>(1000 MT)</i>
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	<i>(1000 MT)</i>

PSD Table							
Dairy, Milk, Nonfat Dry							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2003		07/2004		07/2005	<i>MM/YYYY</i>
Beginning Stocks	7	7	5	5	4	19	<i>(1000 MT)</i>
Production	203	203	189	206	190	216	<i>(1000 MT)</i>
Intra EC Imports	0	0	0	0	0	0	<i>(1000 MT)</i>
Total Imports	2	2	4	2	4	4	<i>(1000 MT)</i>
TOTAL Imports	2	2	4	2	4	4	<i>(1000 MT)</i>
TOTAL SUPPLY	212	212	198	213	198	239	<i>(1000 MT)</i>
Intra EC Exports	0	0	0	0	0	0	<i>(1000 MT)</i>
Total Exports	187	187	174	174	173	204	<i>(1000 MT)</i>
TOTAL Exports	187	187	174	174	173	204	<i>(1000 MT)</i>
Human Dom. Consumption	20	20	20	20	20	20	<i>(1000 MT)</i>
Other Use, Losses	0	0	0	0	0	0	<i>(1000 MT)</i>
Total Dom. Consumption	20	20	20	20	20	20	<i>(1000 MT)</i>
TOTAL Use	207	207	194	194	193	224	<i>(1000 MT)</i>
Ending Stocks	5	5	4	19	5	15	<i>(1000 MT)</i>
TOTAL DISTRIBUTION	212	212	198	213	198	239	<i>(1000 MT)</i>
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	<i>(1000 MT)</i>
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	<i>(1000 MT)</i>